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Welcome to our Presentation on Michigan's 529 Plans – March 7, 2013



Michigan Education Savings Program

MI 529 Advisor.

# Michigan's 529 Plans

Designed to encourage saving for college



First 529 Prepaid Tuition Plan implemented in 1988

- MET I - Plans B & C (1988 to 1990) Closed Plan
- MET II - Plan D (1995 to Present) Open Plan

Over \$950 million in assets & 99,000 Contracts (Sept. 2012)



529 Direct-sold College Savings Plan started in 2000

Over \$3 billion in assets and 243,000 accounts (Nov. 2012)



529 Broker-sold College Savings Plan started in 2009

\$168 million in assets & 17,700 accounts (Nov. 2012)

# What is MET?



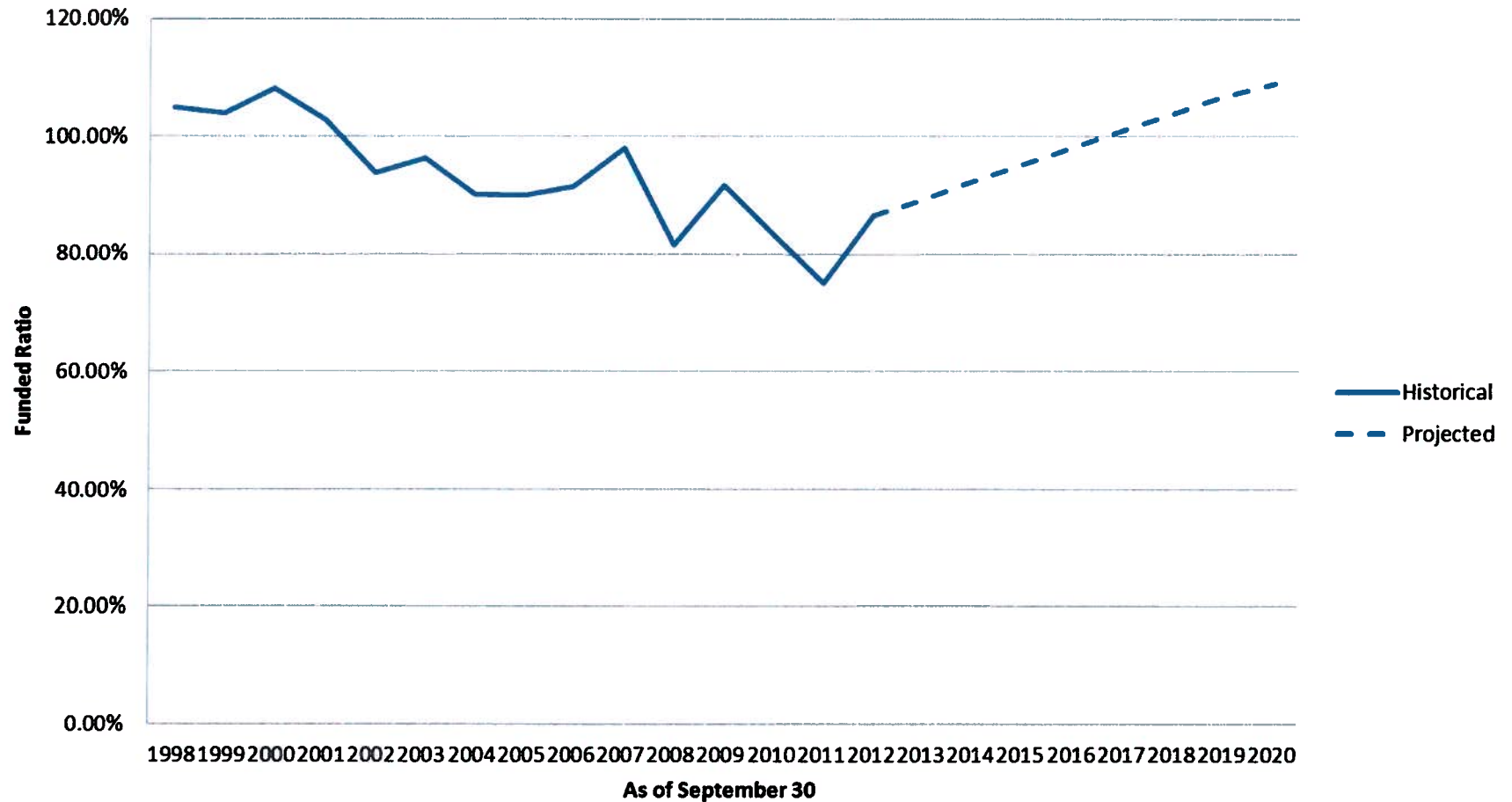
- Michigan's 529 Prepaid Tuition Plan
- Designed to allow parents and others to prepay college tuition at today's cost for a Michigan child (beneficiary)
- Provides in-state tuition and mandatory fees at any Michigan public college/university
- An independent actuary annually determines the actuarial soundness of each MET plan
- Transfer of risk
  - Investment portfolio managed by the Department of Treasury's Bureau of Investments
  - Asset allocation and investment performance reviewed annually
- Secured solely by the assets of the Trust
  - Not guaranteed by the State of Michigan
  - All contracts have been honored

# Recent Actions



- The MET Board reviews program assumptions and funded status annually
- In December 2011, the MET Board formed a Subcommittee to assess MET II's unfunded liability
- The following actuarial assumptions were adopted by the MET Board on August 30, 2012:
  - Investment return of 6.0% annually
  - Tuition to increase at an average annual rate of 7.10% for the next five years and 4.50% thereafter
  - 3,000 contracts will be sold annually
- Based on these assumptions, MET II is 86.6% funded as of September 30, 2012, and will be 100% funded no later than 2020

# MET II Percentage Funded Ratio



# Cash Flow Based on Adopted Assumptions



**MET II - Cash Flow Projection - Based on the Results of the September 30, 2011, Soundness Valuation**  
**Projection of contracts in force as of September 30, 2011.**

Discount Rate and Investment Return	6.00%
Tuition Increase Assumption First Five Years	7.10%
Tuition Increase Assumption After Five Years	4.50%
Contract Price Increase - Years Two through Five	7.10%
Contract Price Increase - Beyond Five Years	4.50%
Number of New Contracts - Each Enrollment Period	3,000

Year	Number of Active Contracts	Market Value of Assets	MVA Plus PV Collections	Surplus of Assets Over Liabilities	Funded Ratio
2011	36,183	584,236,997	656,510,267	(212,782,381)	76%
2012	37,397	563,502,405	621,792,546	(202,961,304)	75%*
2013	38,651	547,955,696	593,970,562	(188,772,261)	76%
2014	39,679	531,876,682	567,733,031	(169,975,775)	77%
2015	40,376	517,171,724	544,257,239	(147,163,247)	79%
2016	41,589	500,113,253	520,935,417	(118,018,936)	82%
2017	42,657	481,870,120	497,458,559	(85,267,368)	85%
2018	43,653	466,535,255	477,827,026	(48,468,278)	91%
2019	44,553	453,591,070	461,829,884	(7,444,805)	98%
2020	45,428	445,774,345	451,590,380	38,162,322	109%

\*Actual: 86.6%



# Actuarially Calculated Percentage Funded Ratio

<u>Year Ending Sept. 30</u>	<u>MET I – Closed Plan</u>	<u>MET II – Open Plan</u>
1998	111.0%	105.0%
1999	116.0%	104.0%
2000	128.8%	108.2%
2001	115.6%	102.9%
2002	112.8%	93.9%
2003	107.0%	96.4%
2004	106.8%	90.2%
2005	104.8%	90.0%
2006	104.4%	91.5%
2007	105.5%	98.1%
2008	108.4%	81.6%
2009	108.1%	91.8%
2010	113.3%	83.3%
2011	105.9%	75.0%
2012	111.1%	86.6%



# MET Charitable Tuition Program

- In 2007, Western Michigan University established the Seita Scholarship. Named to honor Dr. John Seita, the program provides a tuition scholarship to students who have lived in foster care. It also provides a campus coach and resources for additional college expenses like room and board, books and fees.
- In 2009, Michigan Education Trust opens Charitable Contributions Option. Public Acts 134 & 135 of 2009 provides a Michigan tax deduction for contributions to MET Charitable Tuition Program from individuals and entities.
- In 2012, MET holds fund raising events to provide \$21,800 to four Michigan universities with established programs to aid foster care youth: Western Michigan University, Michigan State University, Ferris State University and University of Michigan-Ann Arbor.
- Currently, nine Michigan colleges and universities have implemented programs to help students who have aged out of the foster care system: Baker College – Flint, Eastern Michigan University, Ferris State University, Michigan State University, Saginaw Valley State University, University of Michigan - Ann Arbor, University of Michigan – Flint, Wayne State University and Western Michigan University.
- Donations to MET's Charitable Contributions program will assist these programs.



# What is MESP?



Michigan Education Savings Program

**A Direct Sold  
Investment  
Based College  
Savings Plan**

**With Tax  
Advantages**

**With Flexibility  
in choosing  
your investment  
options**



Third Party Administrator

# What is MAP?

MI 529Advisor<sup>sm</sup>

**A Broker-Sold  
Investment  
Based College  
Savings Plan**

**With Tax  
Advantages**

**With Flexibility  
in choosing  
your investment  
options**



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**Introducing the MI 529 Advisor Plan**

The MI 529 Advisor Plan College Savings Plan Offers Michigan Residents a State Income Tax Deduction

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Michigan Education Savings Program



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Before investing, you should consider whether your state of residency, or your intended beneficiary's state of residency, offers a state tax deduction or any other benefits that are only available for investments in that state's 529 savings program.

An investor should consider the investment objectives, risks and charges and expenses of the MI 529 Advisor Plan before investing. This and other important information is contained in the [MI 529 Advisor Plan Prospectus](#), which should be read carefully before investing, and which is also available from your financial advisor.

Not FDIC Insured • May Lose Value • Not Bank Guaranteed

The MI 529 Advisor Plan is a Michigan 529 College Savings Plan approved by the Michigan State Board of Education. It is administered by Michigan Education Trust, Inc. ("MET") and managed by Michigan Education Savings Program, Inc. ("MESP"). MET is a subsidiary of Michigan Education Trust, Inc. ("MET"). MESP is a subsidiary of Michigan Education Trust, Inc. ("MET"). MET is a subsidiary of Michigan Education Trust, Inc. ("MET"). MESP is a subsidiary of Michigan Education Trust, Inc. ("MET").

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# Appendix

# MET II Contracts Purchased

<u>Year (1)</u>	<u>Annual Number of MET II Contracts (2)</u>
1995	1,388
1997	1,220
1998	1,513
1999	1,446
2000	2,695
2002	4,266
2003	4,462
2004	2,601
2005	3,396
2006	3,533
2007	3,390
2008	3,381
2009	3,283
2010	1,994
2011	2,891
2012*	2,885
TOTAL	44,344

Currently 37,300 MET II contracts outstanding

\*Updated through September 30, 2012 (Full Benefit = 1,801, Limited Benefit = 780, Comm. College = 304)

(1) No contracts sold in 1996

(2) Enrollment periods vary by year

# Historical Tuition and Mandatory Fee Increases

<u>Academic Year</u>	<u>Weighted Average Tuition</u>	<u>% Increase</u>
1996-1997	\$4,064	3.97%
1997-1998	\$4,220	3.84%
1998-1999	\$4,385	3.91%
1999-2000	\$4,587	4.61%
2000-2001	\$4,716	2.81%
2001-2002	\$5,254	11.41%
2002-2003	\$5,714	8.76%
2003-2004	\$6,324	10.68%
2004-2005	\$6,571	3.91%
2005-2006	\$7,295	11.02%
2006-2007	\$7,951	8.99%
2007-2008	\$8,693	9.33%
2008-2009	\$9,372	7.81%
2009-2010	\$9,975	6.43%
2010-2011	\$10,321	3.47%
2011-2012	\$11,309	9.57%
2012-2013*	\$11,550	2.13%
Avg. % Increase (Since 1996-97)		6.63%

At Michigan's 15 public, 4-year universities

\* Preliminary Tuition



# Historical Investment Rates of Return

<u>Year Ending Sept. 30</u>	<u>MET I</u>	<u>MET II</u>
1997	10.30%	17.60%
1998	6.90%	3.20%
1999	0.20%	3.70%
2000	5.20%	7.00%
2001	11.23%	-1.40%
2002	6.65%	1.38%
2003	4.29%	5.04%
2004	3.77%	5.73%
2005	1.97%	5.24%
2006	4.21%	7.49%
2007	5.88%	12.75%
2008	4.65%	-15.42%
2009	7.00%	1.30%
2010	3.59%	8.74%
2011	1.24%	0.19%
2012	2.68%	19.46%

# MET II Contract Prices\*\*

<u>Year</u>	<u>Price</u>	<u>% Increase</u>
1997	\$5,128	3.55%
1998	\$5,128	0.00%
1999	\$5,128	0.00%
2000	\$5,128	0.00%
2002	\$5,512	7.49%
2003	\$6,063	10.00%
2004*	\$7,160	18.09%
2005*	\$7,430	3.77%
2006*	\$9,212	23.98%
2007*	\$9,514	3.28%
2008*	\$10,163	6.82%
2009*	\$10,873	6.99%
2010	\$12,800	17.72%
2011	\$14,820	15.78%
2012	\$16,624	12.17%
2013*	\$16,749	0.75%

\* Average Price

\*\* One Year Full Benefits Plan Contracts



## Similarities and Differences

### MET

- Prepay tuition with three contract options
- Purchase credit hours, in semester increments, at today's prices for future use
- Best benefit at Michigan public institutions for tuition and mandatory fees
- Refund amounts payable to in-state private or out-of-state institutions
- Purchase for Michigan children – no age limit
- 15 years to use or refund
- Forget about tuition increases, you are locked in

### SIMILARITIES

- Both are Section 529 qualified tuition programs
- State income tax deductions
- Earnings are tax exempt for qualified withdrawals
- Low Cost, No Commissions
- Transferable to immediate family members
- Fund with after tax dollars
- Contribute with payroll deduction, ACH or coupons
- Can be used separately or together (\$235,000 max.)
- Recognized as owner's asset for financial aid purposes
- Rollovers accepted from other 529 programs

### MESP

- Investment savings account with nine investment options
- Use at any "eligible educational institution"
- Save for all qualified higher education expenses
- Open an investment savings account with as little as \$25
- One change in investment strategy every twelve months
- No age or time limit to use funds